



**WHERE KNOWLEDGE IS POWER**

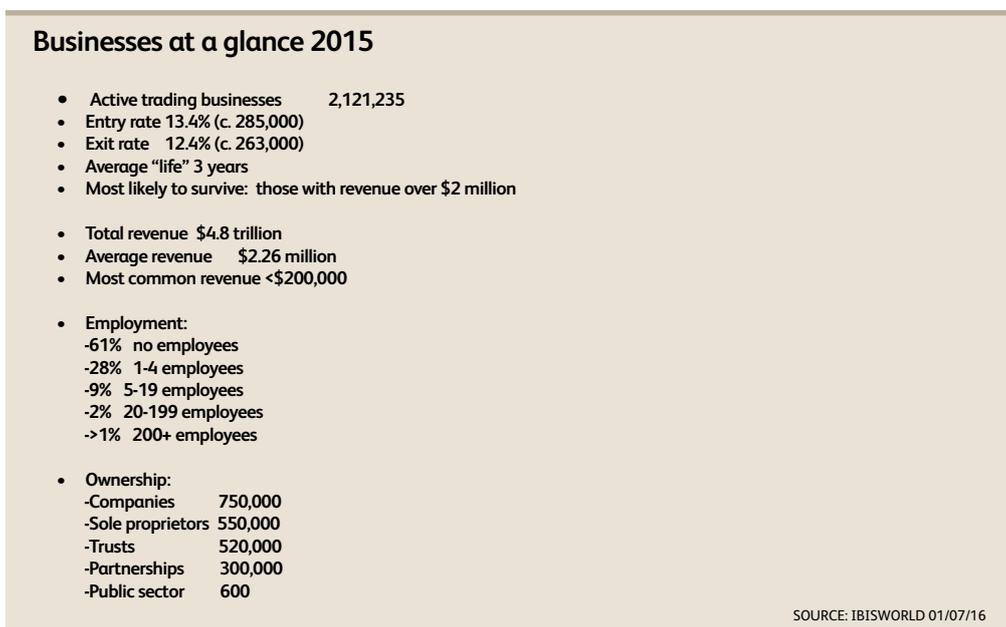
## Businesses in Australia

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This year should end with Australia having 2.1 million active trading businesses, generating a GDP of almost \$1.7 trillion, revenue of \$4.8 trillion and employing 12.1 million persons. The exhibit below shows the key statistics associated with the nation's businesses.



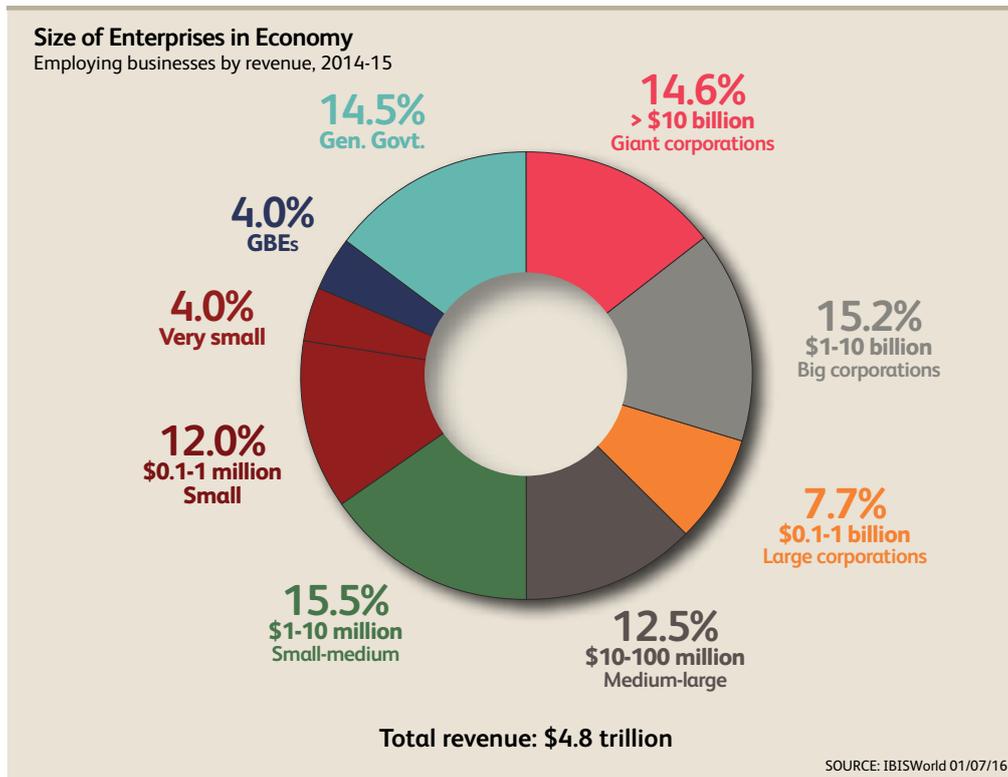
More than one in five households own a business. We are not quite a nation of capitalists, although nearly all households own shares in businesses directly or via their superannuation.

Averages can be deceiving, but the average business is around 12 years old, is in a service industry (70.0% of the nation's GDP), has a revenue of \$2.3 million, employs six people, and is currently growing revenue at around 3.0% pa in a slow-growing economy with no inflation.

The nation's entrepreneurial drive is alive and well, as around 285,000 new businesses started up in 2015. However, a sobering note is that some 263,000 businesses closed, meaning we added a net 22,000 businesses to the total. The majority of the businesses that closed had no employees, which is true of some 61% of the total 2.1 million businesses. The majority of businesses have an annual revenue of over \$200,000, while the average of all businesses is \$2.3 million. And it seems that those businesses with revenue over \$2 million have the best prospects for surviving.

## The revenue size of businesses

The number of businesses in various revenue size categories is shown in the chart below. The so-called big-end-of-town is significant. Some 312 enterprises with revenues over \$1 billion in 2015 accounted for almost 30% of the nation's \$4.8 trillion total revenue. Enterprises with over \$10 million in revenue account for around half of all revenue with just 0.6% of the number of businesses, meaning that the SME sector generates the other half, but with 99.4% of all enterprises.

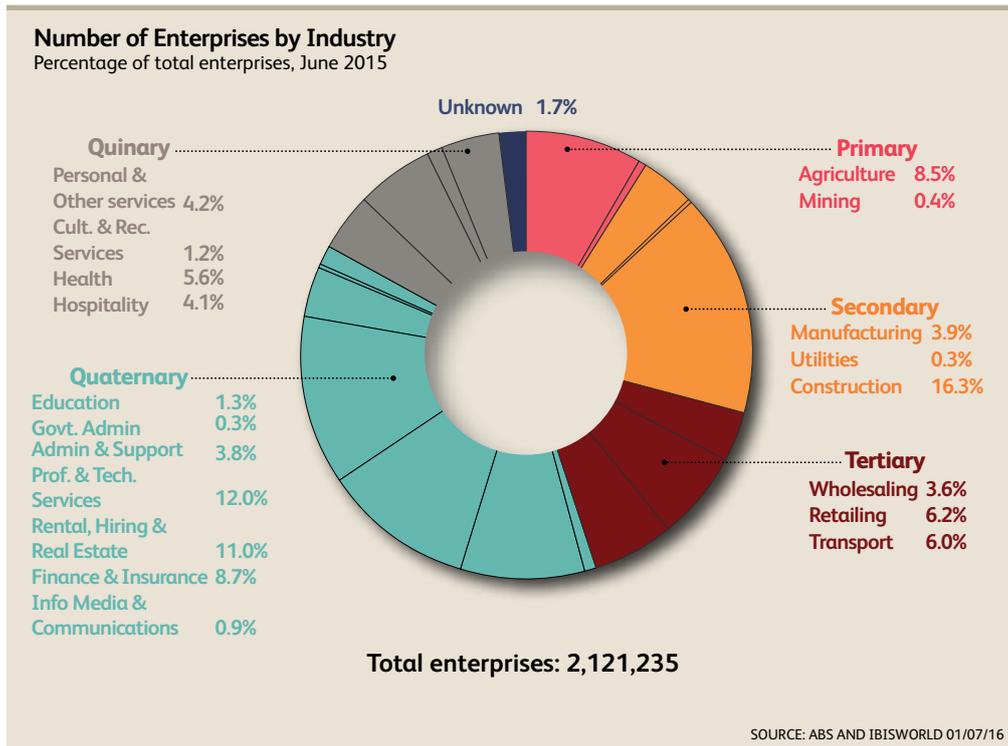


The SME sector has come a long way since the end of the Industrial Age and the emergence of the new Infotronics Age of service industries and the IT revolution in the mid-1960s. The sector's share of the nation's revenue 50 years ago was around 30%; but is now almost equal in importance to the big end of town.

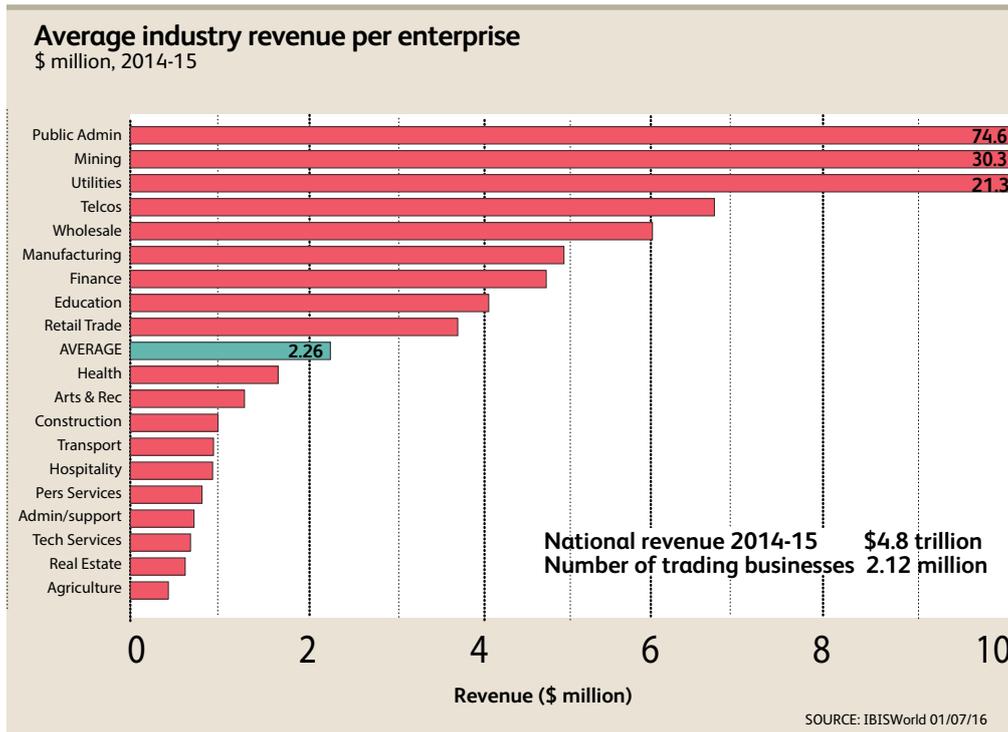
Clearly it has been the SME sector that has pioneered the new service industries via household functions outsourcing, business non-core functions and overseas outsourcing to Australia (tourism, education business services, etc.). Franchising has been a significant contributor to the faster growth of SMEs, not only in new retailing but also in new household and business services.

## Where the businesses are

In geographic terms, numbers follow population levels across our states and territories, with New South Wales and Victoria each having a slightly higher share of businesses than their population share. But when it comes to industries, the number of businesses does not align to the economic or revenue importance of industries due to different average sizes, degrees of capital intensity and automation of businesses in the various industries. The distribution of the 2.1 million businesses in 2015 is shown in the chart below.



The average revenue in each industry division varies enormously, as the chart below reveals.

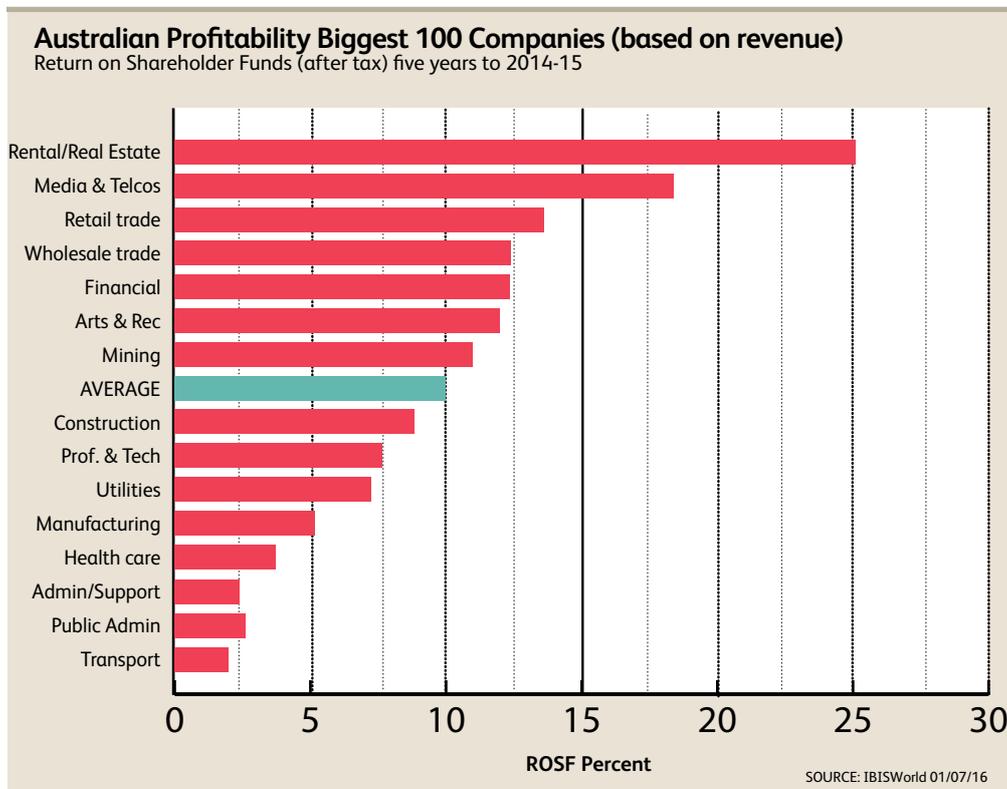


Five of the nation's 19 industry divisions account for almost 60% of all businesses: Construction (16.3%); Professional & Technical Services (12.0%); Rental, Hiring & Real Estate Services (11.0%); Finance & Insurance 8.7%; and Agriculture (8.5%). Interestingly, these five industries account for just 33.0% of the nation's revenue with 58.0% of all businesses. Indeed, 10 industries have an average revenue much lower than the overall average of \$2.3 million per business. The three lowest are: Agriculture (\$427,000); Rental & Real Estate (\$620,000); and Professional and Technical Services (\$680,000).

The average farmer has assets of over \$2.6 million, which explains why – with revenue of just one-sixth that level – Agriculture is the least profitable of all private sector industries in Australia. The net profit (after expenses and taxes are deducted from the low average revenue) gives a long-term average of 2.3%, or less than half the 10-year bond rate over the same period. Even with capital gains, which other industries enjoy too, Agriculture has averaged a total return of less than 6%. A way of life more than a business, as is often sadly stated. Virtually all the service industries have higher average profits using a sixth of the assets of farmers.

At the other end of the spectrum, nine industries have business revenues higher than the all-industries average. The three biggest are: Public Administration and Safety (\$74.6 million); Mining (\$30.3 million); and Utilities (\$21.3 million). However, their fortunes are not great: Government is essentially a not-for-profit (NFP) sector; Mining profitability yo-yos across decades depending on commodity prices; and utilities have had a low average return on shareholder funds for a long time. So, the big end of enterprise size does not necessarily do better than the least-profitable small end.

The chart below confirms this by looking at the profitability of the nation's 100 largest businesses with a combined revenue of \$1.1 trillion (23.0% of the nation's \$4.8 trillion). Only two industry divisions have done well over the past 5 years, and the average profitability of 10% on net assets is very low by WBP standards.



As said earlier, it is the smaller businesses – the SMEs – and the smaller corporations that are doing better in terms of growth and, it seems, profitability.

### Fastest growing opportunities

In this new century, already nearly a sixth completed, new businesses are being created faster in coastal cities around the nation's perimeter and states of Queensland, Western Australia and the Northern Territory.

In terms of industry, it is Health, Professional and Technical Services, Administration and Support Services, Hospitality and Inbound Tourism, Personal and Household Services, Business Services, Financial Services and IT Software and Apps. All fertile ground for SMEs and smaller, more nimble corporations.

A brave new world as they say, with plenty of opportunity for entrepreneurs.



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